

## Chapter 3

### Section 3.01

# The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money

## Standing Committee on Public Accounts Follow-Up on *October 2017 Special Report*

On April 17, 2019, the Standing Committee on Public Accounts (Committee) held a public hearing on our 2017 special report, *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money*. The Committee tabled a report on this hearing in the Legislature in June 2020. A link to the full report can be found at <http://www.auditor.on.ca/en/content/standingcommittee/standing-committee.html>.

The Committee made seven recommendations and asked the Ministry of the then Energy, Northern Development and Mines (now the Ministry of Energy), Ministry of Finance, and the Treasury Board Secretariat to report back by the end of October 2020. The Ministry of Energy, Northern Development and Mines formally responded to the Committee on September 28, 2020, and the Ministry of Finance, the Treasury Board Secretariat, and the Independent Electricity System Operator formally responded to the Committee on September 30, 2020. A number of the issues raised by the Committee were similar to the audit observations of our 2017 audit, which we followed up on in 2021. The status of each of the Committee's recommended actions is shown in **Figure 1**.

We conducted assurance work between April 13, 2021, and September 24, 2021, and obtained written representation from the Treasury Board Secretariat

and the Independent Electricity System Operator that effective November 16, 2021, they have provided us with a complete update of the status of the recommendations made by the Committee.

### Overall Conclusion

As of September 24, 2021, six out of seven (86%) of the Committee's recommended actions had been fully implemented. There has been little or no progress on one (14%) of the recommended actions, which was delayed while the Treasury Board Secretariat prioritized more immediate needs related to the COVID-19 response. The Treasury Board Secretariat anticipates having a formal process in place to address this recommended action by December 2022.

### Detailed Status of Recommendations

**Figure 2** shows the recommendations and status details that are based on responses from the Ministry of Finance, the Treasury Board Secretariat and the Independent Electricity System Operator, and our review of the information provided.

**Figure 1: Summary Status of Actions Recommended in June 2020 Committee Report**

Prepared by the Office of the Auditor General of Ontario

<b>RECOMMENDATION STATUS OVERVIEW</b>						
	# of Actions Recommended	Status of Actions Recommended				
		Fully Implemented	In the Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	1	1				
Recommendation 2	1	1				
Recommendation 3	1	1				
Recommendation 4	1	1				
Recommendation 5	1			1		
Recommendation 6	1	1				
Recommendation 7	1	1				
<b>Total</b>	<b>7</b>	<b>6</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>
<b>%</b>	<b>100</b>	<b>86</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>0</b>

**Figure 2: Committee Recommendations and Detailed Status of Actions Taken**

Prepared by the Office of the Auditor General of Ontario

<b>Committee Recommendation</b>	<b>Status Details</b>
<p><b>Recommendation 1</b></p> <p>The Standing Committee on Public Accounts recommends that the Treasury Board Secretariat, Office of the Provincial Controller Division, and the Office of the Auditor General must consistently review and implement best practices and must strive to maintain a collegial and productive relationship.</p> <p><b>Status: Fully implemented.</b></p>	<p>The interests of government ministries, agencies, Crown corporations, the Office of the Provincial Controller Division (OPCD) and the Office of the Auditor General of Ontario (Office) are best served when there are early discussions on accounting treatments in relation to Canadian Public Sector Accounting Standards and International Financial Reporting Standards and any potential impacts on the Public Accounts.</p> <p>A new working group has been structured to identify and discuss accounting issues in advance and disclose any current projects and seek input at the staff level on advice. The Controllership Policy &amp; Accounting Consultation Branch of the OPCD leads engagement with the Office as part of broader engagement on accounting issues of mutual interest.</p> <p>The current relationship between OPCD and the Office is collegial and productive. Accounting working group meetings between OPCD and the Office occur monthly.</p>

Committee Recommendation	Status Details
<p><b>Recommendation 2</b></p> <p>The Standing Committee on Public Accounts recommends that the Independent Electricity System Operator should continue to adopt the accounting recommendations outlined by the Auditor General in the <i>2017 Annual Report</i> to maintain ongoing transparency in its accounting decisions.</p> <p><b>Status: Fully implemented.</b></p>	<p>The Independent Electricity System Operator (IESO) has adopted the recommendations outlined by the Auditor General effective for its 2018 fiscal year. More specifically, Chapter 2 of the <i>2017 Annual Report</i> recommends that the IESO use Canadian Public Sector Accounting Standards in the preparation of its financial statements; remove market accounts recorded on its financial statements; and, discontinue the use of rate regulated accounting in the preparation of its financial statements.</p> <p>In its 2018 financial statements, the IESO restated its 2017 comparative financial statements to address the Auditor General's recommendations. In addition, the IESO no longer consolidates its market accounts. To provide increased transparency, the IESO's market accounts are now reported as a separate set of audited financial statements.</p> <p>The IESO engaged the Auditor General of Ontario to conduct the audit of its 2018 financial statements, which resulted in the IESO receiving an unqualified audit opinion.</p> <p>As of 2019, the IESO's financial statements are audited by a private sector audit firm. In the normal course of our audit work for the 2019/20 and 2020/21 Public Accounts, the Office reviewed the private sector auditor's files to confirm agreement with and establish reliance on the unqualified audit opinions issued on the IESO's 2019 and 2020 financial statements.</p>
<p><b>Recommendation 3</b></p> <p>The Standing Committee on Public Accounts recommends that the Ministry of Finance and Ontario Financing Authority must implement measures to ensure that all provincial borrowing is transparent and structured in a way that is the least costly for Ontarians.</p> <p><b>Status: Fully implemented.</b></p>	<p>The following is an excerpt of the formal response from the Minister of Finance to the Committee on September 30, 2020:</p> <p>The Government implemented several measures to use a financing structure to fund the electricity bill reduction in a cost-effective and transparent manner:</p> <ul style="list-style-type: none"> <li>• The Province suspended Ontario Power Generation's Fair Hydro Trust borrowing, with April 24, 2018 being the last date Fair Hydro Trust debt was issued, and the rate mitigation provided under the now former Global Adjustment Refinancing program was financed cost effectively by the Province. In addition, the Province reflected the cost of the Global Adjustment refinancing rate mitigation program as an expense in Public Accounts, beginning in fiscal 2017-18.</li> <li>• In September 2018, the Government made the decision to replace Global Adjustment Refinancing and the debt issued to date by the Fair Hydro Trust was consolidated with the Province's debt in the Public Accounts of the Province from 2019-20 onwards.</li> <li>• In the 2018 Fall Economic Statement, the Government committed to providing funding to maintain electricity rates at the level provided for under Global Adjustment Refinancing, but in a more transparent manner.</li> <li>• In May 2019, the Government brought forward the <i>Fixing the Hydro Mess Act, 2019</i>, which amended the <i>Ontario Fair Hydro Plan Act, 2017</i>, and other acts that replaced the Fair Hydro Plan with a rate relief structure that would take advantage of lower government borrowing costs, while increasing transparency. Moreover, moving forward, the legislation does not permit any new debt to be issued by the Fair Hydro Trust.</li> <li>• On November 1, 2019, the new Ontario Electricity Rebate (OER) replaced the rate reduction provided by Global Adjustment refinancing under the Fair Hydro Plan and the former Ontario Rebate for Electricity Consumers (OREC) equivalent to the amount of the eight per cent provincial portion of the HST. The OER rebate appears as a transparent, on-bill line item, showing the true cost of electricity rate reduction for eligible residential, farm and small business consumers. The cost of the OER appears in the Province's annual Public Accounts beginning in fiscal 2018-19.</li> </ul> <p>Finally, the government is also transparently reporting the cost of the Province's electricity relief programs in Public Accounts following the end of each fiscal year.</p>

Committee Recommendation	Status Details
<p><b>Recommendation 4</b></p> <p>The Standing Committee on Public Accounts recommends that to prevent the intentional misrepresentation and falsification of financial information resulting in additional costs as occurred with the Fair Hydro Plan in 2017, the Province and the Independent Electricity System Operator (IESO) must always follow Canadian Public Sector Accounting Standards. When questions arise on the application of the Standards regarding a particular accounting issue, the Province and the IESO have a duty to consult with the Auditor General of Ontario.</p> <p><b>Status: Fully implemented.</b></p>	<p>The IESO is following Canadian Public Sector Accounting Standards and has committed to consult with the Auditor General regarding accounting issues. The IESO contacts the Office as needed to discuss relevant accounting matters. In addition, the IESO has attended annual accounting educational updates offered by the Office.</p> <p>In 2018 and 2019, the IESO consulted with the Office regarding the IESO's cancellation of 750 energy contracts and their appropriate accounting and disclosure.</p> <p>In October 2019, the IESO engaged the Auditor General's office, seeking its input in establishing the IESO's first-ever accounting framework for the IESO market accounts.</p>
<p><b>Recommendation 5</b></p> <p>The Standing Committee on Public Accounts recommends that the Board of any provincial agency seeking indemnification for its activity, must inform the Legislative Assembly of Ontario through the Standing Committee on Government Agencies as well as the Office of the Auditor General of Ontario.</p> <p><b>Status: Little or no progress.</b></p>	<p>The Treasury Board Secretariat is undertaking a review to determine the appropriate instrument to use to ensure that provincial agencies, including their Board of Directors and senior management, are fully aware of the expectations and their responsibilities in a request for indemnities or indemnification for its Board and board members for their activities.</p> <p>The Treasury Board Secretariat anticipates having a formal process for requirements for provincial agencies seeking indemnities for their Board of Directors for their activities, documented and in place by December 2022. This will include requiring notification to the Legislative Assembly of Ontario through the Standing Committee on Government Agencies as well as notification to the Office of the Auditor General of Ontario.</p> <p>The Treasury Board Secretariat informed the Office that activity toward implementing this recommendation was delayed while the Treasury Board Secretariat prioritized more immediate needs related to the COVID-19 response.</p>
<p><b>Recommendation 6</b></p> <p>The Standing Committee on Public Accounts recommends that the Government must always follow and comply with Public Sector Accounting Standards.</p> <p><b>Status: Fully implemented.</b></p>	<p>The Province is committed to preparing its financial statements in accordance with generally accepted accounting principles in order to provide high-quality financial reports that support transparency and accountability in reporting to the public, the Legislature and other users.</p> <p>The Office notes that the Province has received unqualified opinions on its consolidated financial statements for the past four years since the 2017/18 fiscal year.</p>

Committee Recommendation	Status Details
<p><b>Recommendation 7</b></p> <p>The Standing Committee on Public Accounts recommends that the Government must always release the Public Accounts financial statements accompanied by the Auditor General of Ontario's opinion to ensure Ontario is following Public Sector Accounting Standards.</p> <p><b>Status: Fully implemented.</b></p>	<p>The Province is committed to preparing its financial statements in accordance with generally accepted accounting principles in order to provide high-quality financial reports that support transparency and accountability in reporting to the public, the Legislature and other users, including the accompanying Auditor General of Ontario's opinion.</p> <p>The Office notes that the Province has received unqualified opinions on its consolidated financial statements for the past four years commencing with the 2017/18 fiscal year. Further, the Public Accounts have been released accompanied by the Office's audit opinion in each of these years.</p>